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SUBJECT: Mexico Economic Weekly - February 5, 2010

¶1. (U) The Mexico Economic Weekly supplements reporting from Mission Mexico Consulates and the Embassy Mexico Economic Section to provide a sense of ongoing trends. Please contact Adam Shub (shubam@state.gov) or Sigrid Emrich (emrichs@state.gov) for questions or comments about this report.

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ECONOMY AND FINANCE

13. (U) REMITTANCES FALL NEARLY 16% IN 2009: Remittances from the U.S. to Mexico fell nearly 16% in 2009, disrupting the spending patterns of recipients. Remittances are expected to regain their 2008 levels of around US\$21 billion per year as the job market in the U.S. recovers and Mexican migrant workers can once again find work. (Mexico City)

14. (U) LOWER OIL SHARES REDUCES FEDERAL FUNDING TO NUEVO LEON: According to the Secretary of Finance, Nuevo Leon state posted a 2009 budget deficit of US\$100 million (lower than expected), which

includes accumulated debt from the previous administration. The state received US\$1.4 billion in federal funds for 2009 (a drop of 16.9 percent over 2008), less than the US\$1.5 billion it had budgeted. For 2010, Nuevo Leon predicts a budget deficit of US\$194 million pursuant to its total budget of US\$3.58 billion. Nuevo Leon expects US\$1.6 billion in federal funding for 2010. (Monterrey)

TRADE AND INVESTMENT

15. (U) ALFA ANNOUNCES BEST QUARTER IN HISTORY: On January 27, Monterrey-based conglomerate Alfa announced record 2009 fourth quarter net earnings of US\$132 million, ending the year with US\$155 million in net income, in contrast to 2008's US\$791 million loss. Mario Paez, Alfa's Director of Planning and Finance, reported that Alfa will invest US\$380 million in 2010 in its own development: US\$100 million each in its petrochemical, automotive, and food subsidiaries (Alpek, Nemak, and Sigma), and US\$80 million in its telecommunications subsidiary, Alestra. Alfa also recently announced its intention to invest around US\$62 million to develop an oil and gas field it recently discovered in Texas along with

U.S. partner Pioneer Natural Resources. (Monterrey)

16. (U) CEMEX REPORTS US\$265 MILLION IN PROFITS FOR FOURTH QUARTER: On January 26, Monterrey-based Cemex SAB announced fourth quarter profits of US\$265 million, a rebound from a US\$743 million loss in the same period in 2008. Cemex said the profit came on gains from foreign exchange positions and financial instruments, as well as cutbacks in operating costs and spending. Indeed, consolidated net sales declined 17 percent in the fourth quarter to US\$3.4 billion and were down 28 percent for the full year to US\$14.5 billion. The company reported that weak demand hit sales in the U.S. and Spanish construction markets but pointed to signs of stabilization and said it had modest increases in some areas like U.S. highway building. Cemex sales in the fourth quarter in the United States decreased 39 percent compared to the same quarter in 2008. Fourth-quarter sales in Spain were down 21 percent. The company's net debt declined by US\$2 billion in the fourth quarter (to US\$15.1 billion). (Monterrey)

17. (U) SMITHS MEDICAL DELAYS US\$15 MILLION INVESTMENT, CONSIDERS RELOCATION DUE TO CRIME: Lorenzo Casas, Director of Operations for UK-based Smiths Medical, warned that his company may close its 800-employee plant in Apodaca and relocate to another state or a different country due to their concerns for employee public safety. The company had planned to invest US\$15 million to expand its existing plant by 50,000 square feet, but the worsening security situation has delayed plans. Casas said employees have been assaulted and their cars and computers have been stolen outside of the plant's facilities. Moreover, he said, traffic police have extorted and harassed employees. Smiths Medical has three other plants in Tijuana and employs over 4,000 people in Mexico. (Monterrey)

18. (U) INDIA PROMOTES COMMERCIAL INTERACTION WITH MEXICO: The Indian community in Monterrey recently announced the creation of the Northeast Chapter of the India-Mexico Chamber of Commerce, Culture, Industry, Tourism, and Technology (CIMCITT). CIMCITT's goal is to promote commercial relations between India and the states of Coahuila, Nuevo Leon, and Tamaulipas as well as initiate a census of the Indian population in northeast Mexico. Thus far, 400 Indians have been registered in the census. Pablo Longoria Trevino, Executive Chairman of CIMCITT, stated that trade between

the two countries in 2009 totaled around US\$3 billion and predicted that figure to rise to US\$5 billion in 2010. Nuevo Leon has attracted investment from Indian companies such as Saskens, Aricent, Infosys, and Wipro. (Monterrey)

¶9. (U) MATAMOROS-BASED MEXICHEM FLUOR PURCHASES INEOS FLUOR HOLDINGS LIMITED: Mexichem Fluor is one of the world's largest producers of hydrofluoric acid (HF), a key ingredient in refrigerants and essential to the production of aluminum, high-octane gasoline, nuclear fuels, electronic circuitry cards, Teflon, and other items. A company contact confirmed press reports that Mexichem Fluor has purchased INEOS Fluor Holdings Limited, a U.K.-based manufacturer and supplier of fluorinated chemicals and feedstocks with plants in the U.K., Louisiana, and Japan. According to media reports, the deal is valued at US\$350 million and should close in March 2010. With the purchase of INEOS, Mexichem Fluor will become an integrated, global producer of specialty fluorochemicals and forecasts annual sales revenues of more than US\$500 million. Mexichem Fluor - Matamoros has an installed capacity of 208 million pounds of HF a year and exports 98 percent of its production to the U.S. (Matamoros)

TRANSPORTATION AND INFRASTRUCTURE

¶10. (U) TIJUANA TRIES (AGAIN) TO IMPLEMENT MASS TRANSIT: In a forthright presentation to the Committee on Binational Regional Opportunities, Jorge Gutierrez, of Tijuana's planning agency, explained the poor state of public transit in the city, resulting from monopolistic concessionaires who control bus and taxi lines in the city. Concessions are often granted due to political considerations, and routes do not make sense for commuters. This feeds the city's traffic problems because residents opt to buy used cars (usually imported illegally from the U.S.) instead of using the city's expensive and inconvenient public transit. Gutierrez explained the city has tried on four previous occasions to implement light rail or other forms of transportation, but failed, making it difficult for the current municipal administration to get federal funds for its plans to construct Brazilian-style VRT buses in the city. The city has been more successful implementing a "white-topping" pavement program, an improvement over asphalt streets which are quickly destroyed in rains due to the city's lack of adequate sewers. (Tijuana)

ENERGY AND ENVIRONMENT

¶11. (U) COPENHAGEN ACCORD UPDATE: Annex I countries, identified as major economies under the Copenhagen Accord, were to commit to implement quantified economy-wide emissions mitigation targets for 2020 in writing to the UNFCC Secretariat by January 31, 2010. The non-Annex I countries were to implement mitigation actions and submit their mitigation plans to the Secretariat by January 31, ¶2010. Mexico, as a non-Annex I country, inscribed its actions in Appendix II on January 31, 2010, aimed at reducing GHG emissions up to 30% with respect to the business as usual scenario by 2020. With the provision of adequate financial and technological support from developed countries as part of the global agreement, non-Annex I countries will act under the principle of common but differentiated responsibilities. These responsibilities were framed in Kyoto-like language indicating that Mexico sees its commitments as being those of a developing country and dependent upon provision of assistance from the developed countries. As of February 2, 87 countries (including the EU 27 and the United

States) have inscribed or associated with the Accord. (Mexico City)

¶12. (U) CALDERON ON COPENHAGEN: During his participation in the World Economic Forum in Davos last week, Mexican President Felipe Calderon urged governments and companies to set targets to cut their GHG emissions, looking forward to a successful outcome at COP-16 in Cancun, Mexico. On February 2, President Calderon was the keynote speaker at the UN University in Tokyo, where he pointed out the importance of the Copenhagen Accord and all countries' responsibility to adopt measures to face climate change. He noted the historically enormous responsibility of developed countries and the need to strengthen actions of developing countries with technology and financing. (Mexico City)

LABOR

¶13. (U) SME FILES CLAIM UNDER THE NAALC: Members of the Sindicato Mexicano de Electricistas (SME) traveled to Washington, DC, to present their claim against the GOM for the shutdown of the electrical company, Luz y Fuerza del Centro (LFC) and the subsequent dissolution of the union. The complaint was presented at the Department of Labor, and the SME was accompanied by the AFL-CIO and the ITUC. The SME submitted the claim on January 29 and coupled its actions in Washington, DC, with a large protest in Mexico City. Mexican courts continue to rule against the SME's active cases in Mexico. (Mexico City)

¶14. (U) NUEVO LEON SALARY PURCHASING POWER DROPS: In 2009, Nuevo Leon wage earners had the third highest purchasing power loss in the country (-6.5 percent) according to the Federal Secretariat of Labor and Social Security. During the year, Nuevo Leon had the lowest average upward adjustment in salaries and wages paid by employers of all the Mexican states. The only workers who saw a nominal wage increase were union workers; their salaries rose 4.7 percent but, in real terms, decreased 2.2 percent in light of higher inflation. Monterrey posted a 4.87 percent increase, 36.4 percent higher than the national average increase of consumer prices, and the third highest increase of the 46 Mexican cities analyzed by Banxico. According to the Secretariat, some 250,000 workers in Nuevo Leon experienced contractual salary revisions. (Monterrey)

¶15. (U) UNEMPLOYMENT PERSISTS IN TIJUANA: Despite continued flows of FDI into the city, the global economic downturn means unemployment is hovering at 9%, according to INEGI. Statewide unemployment is around 7.6%, up from 2-3% just two years ago. Baja California State Secretary for Economic Development Alejandro Mugaray Lagarda blames an influx of unemployed workers from California and central Mexico for the uptick in unemployed persons. (Tijuana)
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